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SUBJECT: Mexico Economic Weekly - August 21

¶1. (U) The Mexico Economic Weekly supplements reporting from Mission Mexico Consulates and the Embassy Mexico Economic Section to provide a sense of ongoing trends. Please contact Adam Shub (shubam@state.gov) or Sigrid Emrich (emrichs@state.gov) for questions or comments about this report.

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ECONOMY AND FINANCE:

13. (U) INFLATION DROPS TO 5.12%: During the first half of August annual inflation totaled 5.12%, 0.21 percentage points lower than the second half of July. Should inflation continue with its downward trend, it will likely converge toward the Bank of Mexico's target of 4.75%-5.25% for the third quarter of 2009. Merchandise and processed food, as well as government administered prices did not grow as much as last year. On the other hand, produce prices dropped 0.51%. Given this downward trend, the Bank of Mexico decided to keep its benchmark lending rate at 4.5% on August 21.

14. (U) CNBV WILL SUPERVISE "CENTROS CAMBIARIOS": Around 6,000 unregulated money exchange houses (centros cambiarios), will be supervised by the banking regulator, the National Banking and Securities Commission (CNBV, Mexico's SEC equivalent) rather than the Tax Administration Services (IRS equivalent). As a result, the CNBV will have more control over these exchange houses in terms of preventing money laundering and other illegal activities. The bill still needs to be approved by the Senate. In order to conduct operations, centros cambiarios will have to obtain an authorization from the CNBV, be registered as a company rather than an individual, and have a fixed address. Among the new rules that the centros cambiarios will have to implement is to identify and create a record of the users or clients who conduct operations of USD 500 or more.

15. (U) ECONOMIC ADVANTAGES OVERRIDE SECURITY ISSUES: While there is an acute awareness of recent clashes between military and drug trafficking organizations in the area, it has not deterred companies from conducting business in and around Reynosa. General security is of concern, but the industrial parks are reasonably secure, and dedicated to conducting and basing businesses in Tamaulipas and

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Reynosa, contacts told ECON and CONOFFS at the Foro Internacional Clusters 2009 last week. The conference focused on recent security issues in Reynosa with companies in the auto, medical, real estate and information technology (IT) sectors. All contacts emphasized the operational savings they experience in Mexico, especially in this time of economic uncertainty. One attendee highlighted the positive involvement of government officials in Reynosa during recent security incidents (Matamoros)

16. (U) MONTERREY BANKER ON WEAK ECONOMY: The Mexican economy continues to suffer, but the U.S. economy appears to be improving and the Mexican economy should follow suit after a few months delay, according to Agustin del Rio, the regional Bank of Mexico delegate in Monterrey who spoke at an August 7 presentation to U.S. and Mexican real estate executives. Del Rio said Northern Mexico is expected to lead the recovery, which is the reverse of the economic decline which began in southern Mexico and spread north. Del Rio's major concern for long-term growth was the poor outlook for Mexico's public finances. More than one third of all public sector revenue in Mexico is from petroleum. The depletion of petroleum reserves and lower worldwide oil prices have combined to adversely impact revenues. Many Mexican states are already borrowing to avoid spending cuts. (Monterrey)

17. (U) SMALL BUSINESSES ASK NAFINSA TO EXPAND AID: Caintra, an association of Nuevo Leon's manufacturing businesses, has formally requested Mexico's national development bank, Nafinsa, to expand aid to small and medium sized businesses in Nuevo Leon under its special financing program to combat the effects of the H1N1 influenza. At an August 18 press conference, Eduardo Coronado, a representative of Caintra, said of the nearly US\$200 million in credit Nafinsa has promised as economic relief for small businesses in Mexico, Nuevo Leon area companies have only received US\$2 million. Nuevo Leon's manufacturing sector, which was already reeling from the effects of the economic crisis, was hit hard by the H1N1 flu the results of which caused sales to plummet from April to June. The association's members, which have already laid off numerous employees or enacted temporarily plant shutdowns, have claimed they will have to lay-off additional employees if they do not receive economic aid soon. (Monterrey)

18. (U) POSITIVE JOBS DATA IN JUAREZ MAQUILA SECTOR MAY INDICATE

EARLY STAGES RECOVERY: Recent jobs data reveals the 18 month labor contraction in the Juarez maquila sector may have reached its trough this past June. After losing 84,000 jobs since 2007, in July the Juarez Maquila Association (AMAC) reported the city's maquila sector added almost 2,500 jobs (166,458 to 168,883), which represents the first month-over-month increase in maquila jobs since the downturn began. According to AMAC's President, the recent rise in U.S. manufacturing production has led to higher orders for Juarez-based suppliers, which will increase demand for labor during the second half of 2009. AMAC forecasts an increase of 12,000 jobs from the June low by the end of the year. In addition, from March to June of this year, the total number of maquila employees working reduced hours fell from 55,000 to 35,000. Despite this positive news, many economists warn that continued improvement in the Juarez maquila sector will depend on the U.S. economic recovery. (Ciudad Juarez)

¶9. (U) US RECESSION HITS ECONOMY IN SONORA AND SINALOA: News reports from Sonora and Sinaloa indicate that they are struggling as a result of the U.S. recession. A recent article in Culiacan's El Debate described the troubled state of Sinaloa's agricultural economy where local businesses in small farming towns are seeing sales to wholesalers drop by 50 percent from last year. Sinaloa Undersecretary for Economic Development, Lic. Amadeo Zazueta, noted a sharp increase in unemployment, indicating the quantity of packaged agricultural goods shipped from Sinaloa to the United States has dropped by more than 15 percent since last year. His staff attributes lower agricultural product purchases to frugality in American households theorizing that they are now buying just enough produce instead of buying more than they need each week and letting some spoil. According to Hermosillo's El Imparcial newspaper, three thousand Sonoran workers from the recently bankrupted retail and grocery chain VH are struggling to find work. On an optimistic note, local officials noted unemployment held steady in July and government run job placement programs are reporting some openings, but it's not clear that these employees are qualified for the vacant positions. (Hermosillo)

TRADE AND INVESTMENT:

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¶10. (U) EXPORTS FALL IN JULY: During July Mexican exports fell 34.7% after having dropped 26.6% in June. The value of exports totaled USD 17.9 billion, while the value of imports reached USD 19.2 billion. Thus, the trade deficit rose 5% in annual terms. Manufacturing exports plummeted 30.6% with vehicle exports to the U.S. falling by 32.8%. Oil exports fell 51.2%.

¶11. (U) REIT INVESTMENT STALLS: ProLogis, a global real estate investment trust (REIT) that owns and manages investments in distribution facilities, offices, and industrial properties, many of which are in Mexico, has completely reevaluated its business model. As manufacturers have reduced production, the need for industrial space has diminished, leaving higher vacancy rates in industrial rental properties. According to representatives from ProLogis, the company has dramatically reduced its Mexican staff by 37 percent. The company recognizes that the previous growth model in Mexico was unsustainable, and future growth will be at a more measured pace. Despite the more cautious approach to future development, a representative from ProLogis is forecasting a recovery of the Mexican industrial rental market after the first quarter of 2010. (Matamoros)

¶12. (U) THE "THIRD COAST": Tamaulipas is positioning itself to provide product distribution and logistics support to the vast U.S. consumer import market. The Economic and Employment Development office of Tamaulipas stated at the Foro Internacional Clusters 2009 in Reynosa that Mexican ports provide a viable alternative to U.S. ports in California. While much attention has focused on the Mexican Pacific Coast as an alternative import route to the U.S., state officials believe that Tamaulipas' 15 border crossing points with Texas and the port capacities of Tampico and Altamira, which already handle 30% of Mexican exports and imports, will make

Tamaulipas an important logistics hub for U.S. imports. They also stated that Tamaulipas' proximity to the Trans-Texas Corridor, a long-term infrastructure plan stretching from Texas to the Great Lakes, will be a distinct competitive advantage for the State of Tamaulipas, helping cement its role as the "third coast" of the U.S. (Matamoros)

¶13. (U) TAMAULIPAS ATTRACTING IT CORPORATIONS WITH NEW SCIENCE AND TECHNOLOGY PARK: TECHNOTAM Science and Technology Park is scheduled to open in late October or early November in Ciudad Victoria, Tamaulipas. Phase one of the park is nearly complete. The first tenants will include: CINVESTAV, a center for research and advanced studies specializing in IT and Computer Science, granting Master's and PhD's; the Universidad Autonoma de Tamaulipas, specializing in technology education to support the IT sector; TiT@M, the Tamaulipas Information Technology cluster; an IT business incubator; and SVAM International, a global IT services provider. Anil Kapoor, President and CEO of SVAM International, appeared at Foro Internacional Clusters 2009 in McAllen, Texas last week, praising the dedication and involvement of the Tamaulipas government and economic development officials as a key reason why his company decided to expand in Mexico. He enthusiastically recounted the involvement and willingness of local educational institutions to work with his company in setting up curricula that will develop the workforce SVAM International needs as they grow in Mexico. (Matamoros)

INFRASTRUCTURE:

¶14. (U) GUADALAJARA BELTWAY TO BE COMPLETE IN 2011: A new six lane 11.5 kilometer (7 mile) stretch of the beltway that loops around Guadalajara, el Perifrico, opened Tuesday August 18 to light traffic. The newly opened portion represents two of the five planned phases to finish the ring originally planned fifty years ago. At the inauguration ceremony Jalisco Governor Emilio Gonzlez announced that the additional 25-30 kilometers (15-19 miles) needed to complete the loop would be finished in 2011. The effort is intended to reduce congestion in the city center and along a major east-west thoroughfare ahead of the 2012 Pan American games. (Guadalajara)

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